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AGENDA ITEM 8

TO: MEMBERS OF THE INVESTMENT COMMITTEE

I. SUBJECT: Policy Subcommittee Report

II. PROGRAM: Total Fund

III. RECOMMENDATION: CONSENT:

- a. Real Estate Policies
 - 1) Revision of Equity Real Estate
Revision of Opportunistic Real Estate
 - 2) Revision of Equity Real Estate Leverage
- b. Equity Policy
 - 1) Adoption of International Enhanced Index
Strategy – Externally Managed
- c. Fixed Income Policy
 - 1) Revision of Dollar-Denominated Fixed
Income Short Duration Investment

IV. ANALYSIS:

The Policy Subcommittee, at its December 9, 2005 meeting, recommended these revised policies for approval to the Investment Committee. Attached are the clean and black-lined versions from the last adopted policy by the Investment Committee. The black-line uses strike-out to indicate deletions and double underline to indicate additions. Single underline does not indicate a change; rather, it indicates that the term is defined in the glossary.

- **Item 8a – Real Estate Policies**

- 1) Revision of Equity Real Estate

This revision reflects expansion of the allocation range for Opportunistic Real Estate from 0-15% to 0-30% to allow staff to dynamically pursue opportunistic investments that provide superior risk-adjusted returns.

Revision of Opportunistic Real Estate

This revision includes language to clarify that the calculation of asset allocation ranges is based on market values. For clarity and consistency, the actual Opportunistic Real Estate allocation has been deleted from this policy and will be listed in the Equity Real Estate Policy only.

- 2) Revision of Equity Real Estate Leverage

This revision implements the Investment Committee's October 17, 2005 approval to establish a limit of 25% of the Real Estate target allocation on recourse debt and other credit accommodations which carry a CalPERS guarantee.

- **Item 8b – Equity Policies**

- 1) Adoption of International Enhanced Index Strategy – Externally Managed

This is a new policy for the Externally Managed International Enhanced Indexing Program previously approved by the Investment Committee.

- **Item 8c – Fixed Income Policies**

- 1) Revision of Dollar-Denominated Fixed Income Short-Duration Investment

This policy has been updated to reflect changes in the market and to provide flexibility to deal with these as well as future market changes. It also aligns the CalPERS' portfolio manager's interests with CalPERS' total fund goals.

V. STRATEGIC PLAN:

This item supports Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

VI. RESULTS/COSTS:

The results of this item will provide the System with enhanced efficiencies and ability to manage the overall portfolio.

Greg Hood
Division Chief

Anne Stausboll
Interim Chief Investment Officer